UKRAINE: GATEWAY TO NIS IT MARKETS

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When discussing the Ukraine these days, U.S. companies are more likely to mention cases of rusting post-Soviet steel plants, IPR piracy and governmental corruption than the emergence of new info-tech cities. While it is true that Ukraine has a long way to go before it becomes a Western investors 'nirvana,' the country is experiencing a minor revolution in the info-tech sector.

Mobile telecom subscribers in Ukraine are expected to double from 530,000 in September 2000, to reach a level of 1.1 million subscribers by September 2001. Local mobile operators are struggling to cope with such rapid growth. There is also an expansion of Internet Service Providers (ISPs) which outpaces the number of users. Ukraine is still a relatively untapped market for Internet use, with only 1 percent of its 50 million population currently accessing the Internet.

The computer revolution, however, is already underway, and Internet users, e-commerce and multimedia applications cannot be far behind. Already in Ukraine's capital Kiev, more than 50 percent of adult citizens use computers at work, and 10 percent use them at home or school. Internet cafes are also opening and attracting a growing number of users.

DEMAND FOR HARDWARE AND COMPONENT

Annual demand for PCs is expected to reach $260 million by 2002, a 30 percent increase from 2001. More and more of these PCs are being assembled in Ukraine, using components imported from abroad. Currently there are 66 Ukrainian companies assembling computers, and some of the larger firms — such as Kvazar-Micro,— are establishing a good brand reputation and even exporting to Russia and other NIS countries. In February 2001, the Managing Director of Compaq Ukraine announced that Compaq would begin assembling computers in Ukraine in the near future.

The exact size and structure of the Ukrainian computer hardware market is difficult to measure, since official statistics ignore such key factors as local production, and shadow imports of components. However, local production based on imported components is thriving and reshaping the market. Based on data provided by market insiders, rate of importation of finished "brand name" computer equipment has been decreasing by 10 percent annually. This decline in imports of both brand and non-brand finished computers is mostly due to higher rate of taxation of imported finished PCs versus imported components. At the same time, demand for locally manufactured computer hardware from imported components is steadily increasing, and reached 75 percent of total market share in 2000.

Industry experts estimate that only 10 to 15 percent of Ukraine's potential computer hardware demand has been tapped. However, key problems including the lack of consumer purchasing power and lack of consumer credit for installment purchases, must be overcome. Brand-name recognition of major U.S. computer manufacturers is strong, but pricing is still the key consideration for the Ukrainian purchaser. U.S. companies can best access the Ukrainian market by tapping into an increasingly sophisticated network of agents and distributors throughout Ukraine who are able to reach a wide range of clients.

LOCAL SOFTWARE DEVELOPMENT

The Ukrainian talent that formerly led the USSR to excellence in science is now being turned into a 'knowledge base' for development of computer software. Only 5 months ago, James Wolfensohn, President of the World Bank, visited Kvazar-Micro to discuss Ukraine establishment of a technopark. Kvazar-Micro's President, Evgeni Utkin, is the Chairman of Ukraine's Software Development Association, and strongly supports this idea. The Minister of Communications, Oleg Shevchuk, is actively promoting software development. While it is still not clear if the World Bank will commit $300 million to the project, more and more U.S. and foreign companies are starting to locate independent software development operations in Ukraine. For example, currently a third of all computer animation graphics for Hollywood movies is produced by Ukrainian computer graphic specialists. The same critical factors that sparked the Indian software explosion

are in Ukraine today: highly skilled software programmers and low salaries.

RESOURCES TO DEVELOP MARKET POTENTIAL

The Commercial Service in Kiev has been tracking this IT revolution, and reporting regularly on its developments. In particular, Senior Commercial Specialist Ruben Beliaev covers the information technology sector and has written numerous analyses on various aspects of the industry. Many of these reports, in addition to reports from other sectors and countries, can be found at www.usatrade.gov. Senior Commercial Officer David Hunter works closely with the U.S. telecommunications, info-tech and computer firms currently operating in Ukraine, including Lucent, Cisco, Novell, Motorola, Golden Telecom and others.

As part of Commercial Service Kiev's effort to spotlight the growing potential for U.S. companies, the first USA Pavilion in the info-tech sector was organized since Ukrainian independence. On February 20, 2001, U.S. Ambassador Carlos Pascual, along with former President of Ukraine Leonid Kravchuk, and Minister of Communications Oleg Shevchuk, participated in the opening of the USA Pavilion at Ukraine's largest Computer, IT and Communication Technology Trade Fair, Enterex 2001, in Kiev.

The USA Pavilion featured nine major American high-tech manufacturers and suppliers of communications and IT equipment and services including Compaq, Intel, Novell and Sun Microsystems. More than 25,000 attendees visited the USA Pavilion during the four-day show.

Ambassador Pascual offered some brief remarks at the opening of Enterex 2001, mentioning that the IT sector in the U.S. generates hundreds of billions of dollars of earnings each year, and employs over two million workers. For Ukraine to participate in the IT revolution, he said, it needs first to establish a better regime to protect intellectual property and copyrights.

David Hunter joined Minister Shevchuk in a press conference at the opening of Enterex. He highlighted the growing importance of the Computer, IT and Communications sectors in U.S.-Ukrainian business relations.

Enterex is an annual event that in 2001 attracted a total of 67,000 professionals in the computer and telecommunications industry. This annual event is designed to promote information exchange in the IT industry and includes technical seminars, along with the trade show. Firms interested in participating in Enterex 2002 should contact Commercial Service Kiev for more information.

The Ukraine is a challenging market, but one with vast potential. Not only does Ukraine have the opportunity to be a successful market, it could also be a gateway to markets in other NIS markets, but U.S. firms are urged to exercise caution before concluding business in Ukraine. In order to best tackle the Ukrainian market, consult the Country Commercial Guide available at: www.usatrade.gov and discuss prospective investments with Embassy staff, the American Chamber of Commerce, accounting firms, legal counsel and other sources. ∎

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Another valuable source of information on all CIS countries, including Ukraine, is the Business Information Service for the Newly Independent States (BISNIS), the official USG clearing house of trade information in NIS.

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U.S. and Ukraine officials open the USA Pavilion at Entrerex 2001, the first since Ukrainian independence. More than 25,000 visitors attended Entrerex 2001 during the four day show.

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